

1974 Scintrex Annual Report

AR49



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DIRECTORS And OFFICERS

DIRECTORS

Harold O. Seigel
Alfred J. Shaul
William L. Seigel
Gerald Stork
Jon G. Baird
Franc R. Joubin

OFFICERS

Harold O. Seigel, Ph. D., P. Eng.,
President
Gerald Stork, C.A., P. Eng.,
Vice President and Director of Finance and Administration
Jon G. Baird, B. Sc., P. Eng.,
Vice President and General Manager, Earth Science Division
Valentine Burda, M. Sc.,
Vice President and Director of Engineering
Alfred J. Shaul, Q.C.,
Secretary-Treasurer

SOLICITORS

Shaul and Nicholson

BANKERS

Bank of Nova Scotia
Marine Midland Bank

AUDITORS

Laventhol Krekstein Horwath & Horwath

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada

HEAD OFFICE

222 Snidercroft Road, Concord, Ontario.

EARTH SCIENCE DIVISION

SCINTREX LIMITED
SCINTREX SURVEYS LIMITED
Toronto, Ontario, Canada
Harold O. Seigel, *President*
Jon. G. Baird, *Vice President and General Manager*
Jan Klein, *Operations Manager*

SCINTREX SURVEYS LIMITED
Vancouver, British Columbia, Canada
Michael J. Lewis, *Western Manager*

SCINTREX MINERAL SURVEYS, INC.
Salt Lake City, Utah, U.S.A.
Jack Webster

SCINTREX PTY. LTD.
Sydney, N.S.W., Australia
Anthony W. Howland-Rose, *Managing Director*
Perth, Western Australia
Graham Linford, *General Manager*

SEIGEL ASOCIADOS, S.A. de C.V.
Mexico City, Mexico
Patricio Arcos, *Administrator*

PROGIMINES LIMITEE
Beaconsfield, Quebec, Canada
Mousseau Tremblay, *President*

AUDIO PRODUCTS DIVISION

SCINTREX INC.
Buffalo, N.Y., U.S.A.
Jerry A. Henricks, *Vice President and General Manager*

SCINTREX LIMITED
Toronto, Ontario, Canada
Harry L. Schmidt, *Director of Engineering*

President's Report To The Shareholders

The past year has seen a strong recovery in the performance of our company. This progress is attributable mainly to revenue from new products and services in the earth sciences, improved marketing efforts and operational efficiencies.

In the financial statements, the figures for Ince-Data Corporation (80.6% owned) have been presented separately to reflect your directors' decision to make no further investment in this subsidiary. We have, accordingly, written off all investments in and advances to date to this company. Corresponding figures for our previous fiscal year have been restated to reflect our continuing operations in the fields of earth sciences and audio products.

These operations show an increase in revenue of about 23% over that of the previous year. Income before taxes was \$63,050 compared to a prior year's loss of \$560,296. This improvement has been due entirely to the performance of the Earth Science Division and the effect of our two years of progressive cost cutting. The cost of sales, including selling and administrative expenses, rose only 4%, but bank interest charges were sharply higher due to the recent rise in interest rates.

The gross expenditure in research and development increased by about 4%, but net expenses in this area were reduced by 9% due to the greater measure of support for individual projects by industrial and governmental sources, which contributed \$237,093 in the year under review.

The working capital of the company increased by \$138,000, the first increase in six years.

The Earth Science Division operated in a gratifying fashion. It is believed that the earth science market as a whole was probably not much healthier in 1973 than in the previous year, since the effect of higher metal prices during the second half of the year had not yet filtered through to the exploration budgets in the private sector. Our own recovery occurred both in the instrument and service sectors, although primarily in the export markets, which accounted for more than 75% of gross revenues this year.

During the year, geophysical services were provided to clients including the United Nations (mineral and geothermal exploration programs), governmental agencies and the private mining sector. Service was provided in Angola, Argentina, Australia, Brazil, Canada, Honduras, In-

donesia, Mexico, Morocco, U.S.A., U.K. and Venezuela. Geophysical instruments were sold and delivered to approximately 50 countries.

Among the major service projects carried out during the year were large Turair II airborne electromagnetic programs and related ground follow-up surveys in Canada, Venezuela and Australia. This method is now protected by patent (as well as trade mark) in many countries.

Helicopter and fixed-wing-borne electromagnetic, radiometric and magnetic surveys helped to round out the world-wide geophysical activities of this division.

The contribution of new products and services to the growth of the Earth Science Division is a clear proof of the value of the company's continuing research and development investment. Aside from Turair, the company also has, for example, Magnetic Induced Polarization and mercury soil gas analysis. These tools have made it possible to increase our sales in Australia in a year when the total industry-wide expenditure on exploration was reported to have fallen off sharply.

Research and Development activity of the company continued at about the same level as that of the previous year. A number of new instruments were put into production including the GAM-1 single channel, multi-purpose, gamma ray analyser, the GSA-64 airborne gamma ray sensor, the IPR-8 six channel, time domain, induced polarization receiver, the MFD-4 digital reading component, fluxgate magnetometer and the MP-2 portable, proton-precession, total field magnetometer.

With the close support of a major Canadian mining company, Scintrex has now field tested its prototype neutron-prompt gamma grade logging borehole system on a typical lateritic nickel deposit. The results of this test fully confirm the favourable predictions based upon the laboratory results and show that this technique is of considerable potential value in providing rapid and accurate on-site assaying of nickel and iron grades in boreholes.

One of the products of our research and development in the audio field is the new four speaker SX-4 headphone. It produces a novel feeling of sound "depth" and "surround". This headphone is scheduled for market introduction shortly.

The Audio Division has passed through a period of reorientation and renewal. All products have been improved in styling, performance or packaging and several new products have been introduced. The marketing budget has been considerably increased and the dealer network greatly expanded. This has resulted in a strong increase in sales during the second half of 1973.

Board of Directors

There have been several changes in the Board during this year. Mr. Roger H. Pemberton has left to direct the geophysical activities of Noranda Mines Limited. We thank him for the years of service to the company and wish him well in his new and challenging job.

Two places on our Board have been filled by the following valuable additions. Dr. Franc R. Joubin is an eminent and much honoured member of the geoscience community in Canada and the discoverer of the important Blind River, Ontario, uranium camp. He is a director of a number of mining and petroleum companies and a consulting geologist of international repute.

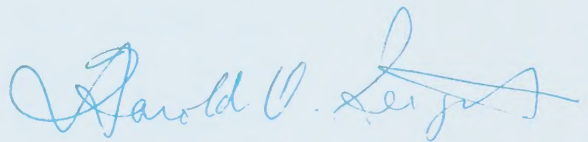
Mr. Jon G. Baird, B.Sc., a geophysicist and member of the Scintrex organization since 1963, has risen through the ranks to become General Manager of the Earth Science Division. He has experience in the marketing of geophysical services and instrumentation in many parts of the world.

I am most pleased to welcome Dr. Joubin and Mr. Baird to our Board.

The Company's Prospects for the current year appear good. Mineral exploration activity is generally more buoyant, on a worldwide basis, although there are certain soft spots, such as Australia, British Columbia, and Manitoba, where political or fiscal pressure is being brought to bear on the mining industry. The sale of geophysical instruments is at a high level, aided by a number of favourable factors including the expanded search for uranium.

Unencumbered by the financial demands of Incore-Data and with the expected better performance of the Audio Division, we should be able to turn fiscal 1974 into a solidly profitable year.

The strength of Scintrex lies ultimately in the ability and hard work of our employees. To them I offer our thanks on behalf of the board of directors.



Harold O. Seigel

**SCINTREX****Consolidated Balance Sheet - January 31, 1974**

Assets	1974	1973
Current:		(Note 1)
Cash	\$ 121,560	\$ 131,681
Accounts receivable	1,041,116	758,515
Inventories, at the lower of cost and net realizable value (Note 2)	970,024	856,586
Prepaid expenses and sundry assets	63,386	59,796
	<u>2,196,086</u>	<u>1,806,578</u>
Investment in Incre-Data Corporation (Note 1)	1	—
Property, plant and quipment (Note 3)	1,603,365	1,819,119
Other (Note 4)	429,855	434,336
	<u>\$4,229,307</u>	<u>\$4,060,033</u>
Liabilities		
Current:		
Bank indebtedness (Note 5)	\$ 885,213	\$ 782,400
Accounts payable and accrued liabilities	597,965	399,566
Income taxes payable	8,705	9,816
Current portion of long-term debt	75,000	76,500
Investment in Incre-Data Corporation (deficit) (Note 1)	—	46,627
	<u>1,566,883</u>	<u>1,314,909</u>
Long-term debt (Note 6)	460,316	534,483
Deferred income taxes	—	6,286
Minority interest	3,991	3,750
Shareholders' Equity		
Capital (Note 7)	1,688,948	1,675,528
Contributed surplus (Note 8)	79,970	79,970
Retained earnings	429,199	445,107
	<u>2,198,117</u>	<u>2,200,605</u>
	<u>\$4,229,307</u>	<u>\$4,060,033</u>

On behalf of the Board:

Harold O. Seigel, Director

Alfred J. Shaul, Director

See accompanying notes.

Consolidated Statement Of Income And Retained Earnings—Year Ended January 31, 1974

	1974	1973 (Note 1)
Sales	\$4,141,726	\$3,358,727
Cost of sales, including selling and administrative expenses	3,370,348	3,219,425
Depreciation and amortization	316,664	326,206
Research and development expenses	467,341	447,102
Interest on long-term debt	48,739	46,575
Other interest	85,563	50,629
Share of loss in partnership	-	15,197
Minority interest	242	8,016
Loss on disposal of fixed assets	<u>26,872</u>	<u>-</u>
	4,315,769	4,113,150
Less research and development grants	<u>237,093</u>	<u>194,127</u>
	4,078,676	3,919,023
Income (loss) from continuing operations before undernoted items	<u>63,050</u>	<u>(560,296)</u>
Income taxes:		
Current	62,808	(11,573)
Deferred	<u>(6,286)</u>	<u>(163,468)</u>
	56,522	(175,041)
Loss from operations of discontinued subsidiary, Incre-Data Corporation (Note 1)	<u>(27,192)</u>	<u>(32,398)</u>
Loss before extraordinary items	<u>(20,664)</u>	<u>(417,653)</u>
Extraordinary items:		
Provision for loss on Incre-Data Corporation (Note 1)	65,479	-
Reduction of income taxes and application of losses of prior years	<u>(70,235)</u>	<u>-</u>
	(4,756)	-
Net loss	(15,908)	(417,653)
Retained earnings at beginning of year	445,107	862,760
Retained earnings at end of year	<u>\$ 429,199</u>	<u>\$ 445,107</u>
Weighted average common shares outstanding	<u>878,954</u>	<u>868,038</u>
Loss per common share (after preferred dividend requirements of \$19,650)(Note 12):		
Loss before extraordinary items	\$0.05	\$0.50
Net loss	\$0.04	\$0.50

See accompanying notes.

Consolidated Statement of Source And Use Of Funds – Year Ended January 31, 1974

	1974	1973 (Note 1)
Working capital at beginning of year	<u>\$491,669</u>	<u>\$920,524</u>
Source of funds:		
From operations:		
Net loss	15,908	-
Less depreciation and amortization, deferred taxes and other items not requiring an outlay of funds	<u>337,490</u>	<u>-</u>
	321,582	-
Government of Canada grant re property and equipment	-	7,000
Proceeds from issue of common shares	<u>13,420</u>	10,700
	<u>335,002</u>	17,700
	<u>826,671</u>	938,224
Use of funds:		
Net operating loss	-	417,653
Less depreciation and amortization, deferred taxes and other items not requiring an outlay of funds	<u>-</u>	179,391
	-	238,262
Net investment in and advances to Ince-Data Corporation	-	17,688
Net additions to properties, equipment and other assets	123,301	113,440
Retirement of long-term debt	<u>74,167</u>	77,165
	<u>197,468</u>	446,555
Working capital at end of year	<u>629,203</u>	491,669
Increase (decrease) in working capital	<u>\$137,534</u>	<u>(\$428,855)</u>

Auditors' Report

To the Shareholders of
Scintrex Limited.

We have examined the consolidated balance sheet of Scintrex Limited and its subsidiaries as at January 31, 1974 and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 31, 1974 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
April 24, 1974.

**Laventhol Krekstein
Horwath & Horwath**
Chartered Accountants.

Notes To Consolidated Financial Statements January 31, 1974

1. Principles of consolidation:

The consolidated financial statements include the accounts of all subsidiaries with the exception of Incre-Data Corporation, a U.S. subsidiary 80.6% owned (61.1% owned at January 31, 1973).

Subsequent to January 31, 1974, the operations of Incre-Data Corporation were discontinued and liquidation proceedings are underway. In view of this liquidation, the accounts of Incre-Data are not consolidated and the investment therein has been written down to a nominal value of \$1. The estimated ultimate loss of \$65,479 on liquidation is shown as an extraordinary item. The operating loss of this subsidiary for both the current year (\$27,192) and prior year (\$32,398) is shown separately in the consolidated statement of income.

For comparative purposes, Incre-Data is not consolidated in the 1973 figures and the company's investment is shown at cost less its share of the Incre-Data deficit resulting in a credit balance of \$46,627. This amount is included in current liabilities.

Amounts in foreign currencies have been translated substantially at rates current at period-end except for properties and equipment which are at rates prevailing on dates of acquisition.

2. Inventories, at lower of cost and net realizable value:

	<u>1974</u>	<u>1973</u>
Raw materials	\$409,060	\$396,734
Work in process	328,757	170,978
Finished goods	232,207	288,874
	<u>\$970,024</u>	<u>\$856,586</u>

3. Property, plant and equipment, at cost:

	<u>1974</u>	<u>1973</u>
Buildings	\$ 599,938	\$ 599,938
Equipment	2,340,496	2,333,806
	<u>2,940,434</u>	<u>2,933,744</u>
Less accumulated depreciation	1,494,902	1,244,015
	<u>1,445,532</u>	<u>1,689,729</u>
Land	157,833	129,390
	<u>\$1,603,365</u>	<u>\$1,819,119</u>

4. Other assets:

	<u>1974</u>	<u>1973</u>
Patents and processes, at cost less accumulated amortization of \$64,238 (1973-\$52,237)	\$ 92,654	\$ 97,135
Excess of cost of subsidiary over book value on acquisition	337,201	337,201
	<u>\$429,855</u>	<u>\$434,336</u>

5. Bank indebtedness:

The bank indebtedness is secured by a floating charge on all the assets of the company.

6. Long-term debt:

	<u>1974</u>	<u>1973</u>
Scintrex Limited:		
Bank debenture, at prime rate plus 1¾%, maturing September 30, 1981, secured by a floating charge on all assets of the company	\$387,500	\$437,500
Scintrex Inc.:		
7¾% mortgage payable, maturing March 31, 1984, secured by the real estate	91,150	96,817

Note payable, at prime rate plus 1¼%, maturing November 15, 1976, secured by a floating charge on all the assets of this subsidiary	56,666	76,666
	535,316	610,983
Less amounts due within one year	75,000	76,500
	<u>\$460,316</u>	<u>\$534,483</u>

The aggregate amount of principal payments required in each of the next five years is estimated as follows:

1975	1976	1977	1978	1979
\$75,000	75,700	73,200	57,400	58,400

7. Capital:

Authorized:

350,000 6% Cumulative, non-voting, convertible, preference shares, par value \$1 (a)
3,000,000 Common shares, no par value

Issued	Outstanding at beginning of year	Issued under employee stock purchase and option plans	Outstanding at end of year
Preference			
No. of shares	327,500	—	327,500
Par value	\$327,500	—	\$ 327,500
Common			
No. of shares	873,143	11,622	884,765
Consideration	\$1,348,028	\$13,420	\$1,361,448
Total			
Consideration	\$1,675,528	\$13,420	\$1,688,948

(a) Preference shares:

The preference shares may be converted at any time by the holder or holders thereof into fully-paid common shares (as presently constituted) of the company on the basis of one common for two preference shares. Dividends on these 6% cumulative preference shares are payable semi-annually on the last days of July and January of each year. These shares are non-voting unless the company has failed to pay dividends for a period of two years. As of January 31, 1974 the last five semi-annual dividends aggregating \$49,125 have not been declared and therefore these shares now have voting rights.

(b) Employee stock purchase plan:

The company has offered a savings plan to its employees whereby employees may subscribe for shares up to 10% of their annual wages at a price of 85% of the average market value of the shares for the month immediately preceding the sale to the employees. 10,000 common shares have been set aside out of the Treasury for this purpose and 5,222 shares were issued in January 1974 pursuant to this plan.

(c) Employee stock option plan:

26,150 common shares remain under the company's revised 1971 Incentive Stock Option Plan. These options may be exercised until September 30, 1974 at a price of \$1.025 per share. In the year ended January 31, 1974, 6,400 shares were issued to employees at a price of \$1.025 per share.

8. Contributed surplus:

This arises from grants under the Industrial Research and Development Incentives Act for capital expenditures incurred for the acquisition of property and equipment. The Act provides for recovery of all or part of the grants where the property and equipment acquired has been sold, destroyed or ceases to be used for scientific research and development.

9. Income taxes:

Subsidiaries of the company have losses in current and prior years amounting to \$244,000 which may be used to reduce taxable income in future years as follows:

\$67,000 to 1977

97,000 to 1978

80,000 to 1979

10. Lease commitments:

The company and certain subsidiaries have rental commitments in respect of leased premises for periods up to 1984. The commitments for the next five years are approximately as follows:

1975 \$30,550

1976 23,450

1977 17,250

1978 17,250

1979 17,250

11. Remuneration of directors and senior officers:

Total remuneration paid to directors and senior officers amounts to \$116,779 for the year (\$135,620 in 1973).

12. Loss per share:

There would be no dilutive effect on the loss per share if the employees had exercised the options under their stock purchase and option plans.

TEN YEAR FINANCIAL SUMMARY

Year Ended January 31,	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Earnings										
Gross Revenue	\$ 4,142	3,359	4,672	5,847	5,318	3,153	2,359	1,015	762	612
Net Income (loss) before extraordinary items	\$ (21)	(418)	(370)	321	462	293	301	151	62	20
Net Income (loss)	\$ (16)	(418)	(550)	310	512	293	301	151	62	20
Per Common Share	\$ (.04)	(.50)	(.66)	.34	.58	.33	.34	.32	.13	.04
Balance Sheet										
Working Capital	\$ 629	492	920	1,071	1,172	1,172	1,050	522	418	336
Property, Plant and Equipment (net)	\$ 1,603	1,819	2,009	1,976	1,731	705	467	164	117	120
Total Assets	\$ 4,229	4,060	4,644	5,215	4,474	2,850	2,272	1,052	935	897
Net worth of common share	\$ 2.11	2.14	2.62	3.23	2.91	2.28	1.93	1.89	1.82	1.73
No. of Common Shares Outstanding at Year End	884,765	873,143	867,574	867,574	855,614	836,544	821,578	473,144	473,144	473,144

NOTE: Amounts shown above are thousands of dollars with the exception of net income and net worth per common share, which are stated in dollars. Effect of stock splits in 1967 and 1970 are included in the above. 1972 and 1973 gross revenue and balance sheet figures are amended to eliminate those of Incre-Data Corporation.



222 Snidercroft Rd.
Concord, Ont., Canada
Telephone (416) 669-2280

Complete Geophysical
Instrumentation and
Services.

Scintrex Limited
Consolidated Statement of Source
and Use of Funds
Six Months Ended July 31

	1974	1973*
Working capital at beginning of period	\$629,203	\$491,669
Source of funds:		
From operations:		
Net profit (loss)	95,496	(6,614)
Add depreciation and amortization, deferred taxes and other items not requiring an outlay of funds	<u>180,535</u>	<u>170,348</u>
	<u>276,031</u>	<u>163,734</u>
	<u>905,234</u>	<u>655,403</u>
Use of funds:		
Net additions to properties, equipment and other assets	73,482	114,784
Retirement of long-term debt	<u>38,003</u>	<u>41,381</u>
	<u>111,485</u>	<u>156,165</u>
Working capital at end of period	<u>793,749</u>	<u>499,238</u>
Increase in working capital	<u>\$164,546</u>	<u>\$ 7,569</u>

* 1973 figures were amended to show Incre-Data Corporation's results using the equity method of accounting rather than on a fully consolidated basis.

(The above statement is unaudited)

Scintrex Interim Report

For the Six Months
Ended July 31st, 1974

AR49



To the shareholders

Concord

Concord
Scintrex Limited
Consolidated Statement of Income
Six Months Ended July 31

Financial

Financial results of your company's operations for the six months ended July 31, 1974 show a substantial improvement over figures for the same period last year.

Net profit rose to \$95,496 as against a loss of \$6,614 last year and sales amounted to \$2,278,975 compared to \$2,166,378, an increase of 5%.

Scintrex' working capital improved by close to \$165,000 and at July 31, 1974 stood at \$794,000.

Operations

Revenue is now being generated from survey operations using the "Scintrex System", which in your company's view, is the best comprehensive aerial survey system for mineral exploration available today. The system, mounted in a company-owned Otter aircraft, produces 13 independent channels of geophysical data and three channels of operational data, recorded in fully computer-compatible digital form. It is an excellent tool for aerial exploration for deposits of uranium, base metals, sand, gravel and for groundwater.

The Scintrex System is expected to make an increasingly important contribution to your company's sales and earnings in the months and years ahead.

Headphone sales continue to show marked improvement over the past year and the market for geophysical instruments is exhibiting considerable strength.

Owing to a substantial backlog of firm orders and a large volume of outstanding quotations in both instruments and services, your company expects that the current trend of rising sales and profits will be maintained throughout the remainder of the fiscal year.

Harold O. Seigel,
Ph. D., P. Eng.,
President

September 20, 1974.

	1974	1973*
Sales	\$2,278,975	\$2,166,378
Cost of sales, including selling and administrative expenses	1,792,190	1,747,258
Depreciation and amortization	180,535	170,348
Research and development expenses	247,345	235,080
Interest on long-term debt	26,930	22,747
Other interest	49,899	34,557
Minority interest	4,500	818
	<u>2,301,399</u>	<u>2,210,808</u>
Less research and development grants	123,513	103,199
	<u>2,177,886</u>	<u>2,107,609</u>
Income from continuing operations before income taxes	101,089	58,769
Income taxes	✓ 55,593	✓ 28,523
	✓ 45,496	✓ 30,246
Loss from operations of discontinued subsidiary, Incre-Data Corporation	—	36,860
Profit (loss) before extraordinary item	45,496	(6,614)
Extraordinary item:		
Income tax reduction from carry forward of prior years' losses	50,000	—
Net profit (loss)	✓ \$ 95,496	✓ \$ (6,614)
Number of common shares outstanding	884,765	884,765
Profit (loss) per common share (after preferred dividend requirements)	\$0.10	\$(0.01)

* 1973 figures were amended to show Incre-Data Corporation's results using the equity method of accounting rather than on a fully consolidated basis.

(The above statement is unaudited)